



# Briefing

# Tax

## Have you considered claiming Research and Development Relief?

If you are involved in a FinTech company which undertakes research and development, have you considered claiming Research and Development Relief (**R&D Relief**)?

R&D Relief is a potentially valuable relief from corporation tax but is generally considered to be under-claimed. Over the last year, the Government and HMRC have sought to increase awareness of the relief and to encourage eligible companies to claim.

However, like many tax reliefs, the conditions of R&D Relief are stringent and working out which expenses will qualify is not always straightforward.

### How does the relief work?

There are separate R&D Reliefs available depending on whether a company is a small or medium enterprise (**SME**) or a large company. Capital expenditure is covered by a separate relief.

Broadly speaking, an SME must have fewer than 500 employees and either (or both) an annual turnover not exceeding EUR100 million or a balance sheet total not exceeding EUR86 million. The test becomes more complex where companies are part of a group.

Under normal principles (without claiming R&D Relief) a company should be able to deduct expenditure on R&D which would have qualified for relief from its profits.

### SME Relief

A company claiming SME R&D Relief can make an additional deduction from its profits of 130% of the amount of the qualifying R&D expenditure (from 1 April 2015). This means that the company can deduct a total of 230% of any qualifying R&D expenditure when calculating profits; reducing corporation tax liability accordingly.

Broadly speaking, if the company makes a loss after deducting the 230% "super deduction" the loss created by the deduction can be surrendered for a cash payment of 14.5% of the amount surrendered.

To give an example of how this might work in practice, if a company incurs £100,000 of qualifying R&D expenditure it can deduct £230,000 when calculating its profits for corporation tax purposes.

If, after deducting the £230,000 the company makes a loss of, say, £200,000 this loss can be surrendered for a cash payment of £29,000 (being 14.5% of £200,000).

The way the rules work can sometimes be more complicated than this but this should give a broad idea of the value of the relief.

### Large companies relief

Calculation of the large companies relief (R&D expenditure credit) is more complex but the effect is to allow the company a credit worth approximately 9% of the qualifying R&D expenditure which can be set against corporation tax liability or, in some cases, paid to the company in cash. The exact value of the credit will vary as corporation tax rates come down over the next few years.

### Conditions

#### Research and Development

The definition of R&D follows the usual definition for accounting purposes with some modifications which are set out in the Department for Business, Innovation and Skills guidance. This applies for both the SME and large companies relief.

Broadly, activities which directly contribute to achieving an advance in science or technology through the resolution of a scientific or technological uncertainty will be R&D. The advance must contribute to the overall knowledge or capability in science or technology and cannot just enhance a company's own state of knowledge. While adapting knowledge from another field or making appreciable improvements to existing processes or products can constitute R&D, routine copying or adaption of existing products or processes will not. In some cases, the line as to where R&D ends and manufacturing begins will not be clear-cut.

The guidance covers various specific situations in more detail, including for example when pilot projects and prototypes will qualify as R&D.

#### Qualifying expenditure

Only certain categories of expenditure qualify for relief. These include the following to the extent that they relate to R&D activities:

- the costs of employing staff who are directly involved in R&D and some staff who are indirectly involved e.g. IT staff who maintain computers used in R&D;
- software used in R&D;
- consumable items used in R&D. This can include utilities such as electricity used in R&D, for example;
- certain subcontracted R&D;
- certain costs in respect of externally provided workers; and
- payments to the subject of clinical trials.

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There are exclusions and limitations in each of the above categories so it is important to check how the detailed conditions of the relief apply to a specific expense.

### Other Conditions

There are several other conditions which must be met in order to qualify for R&D Relief.

These include, amongst others, that the company must be a going concern and, in the case of SME relief, that the project in question is not subsidised by a grant or subsidiary which is notified state aid.

### Claiming R&D Relief

A company can claim R&D Relief in its self-assessment corporation tax return for the accounting period in which the qualifying expenditure was incurred or by amending the return within one year of the filing deadline.

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